**Tiered Grantmaking**

**Quote:**

*“Where is the randomized trial?” is, for many purposes, the right question, but for many others it is the wrong question, a myopic one. A better one is broader: “What is everyone learning?”* “ (Source: Berwick D., “[The Science of Improvement](http://www.allhealth.org/BriefingMaterials/JAMA-Berwick-1151.pdf)”, Journal of American Medical Association, Vol. 299, No. 10, p.1184, March 2008) for D5 discussion of evaluation debate between RCT and Big Data approaches

**Intro:**

*“Moneyball for Government” or, Fund What Works*

Among the most notable recent advances in federal grant making are “tiered-evidence” grant designs, which allow programs to allocate resources to practices in accordance with their level of evidence of effectiveness. Also known as “innovation funds,” these grantmaking programs address a key challenge agencies face: how to structure investments to support promising new ideas while also investing in the scale-up of approaches that have demonstrated credible results and the potential for broader impact. [Source: Burwell S., et al, “[Next Steps in the Evidence and Innovation Agenda](https://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-17.pdf)”, Memo to the Heads of Departments and Agencies from the Executive Office of the President, Office of Management and Budget, July 2013). A tiered-evidence approach provides agencies a systematic way of addressing this challenge. Here, grants are awarded to programs according to their evidence of their effectiveness, and approaches that make changes to achieve stronger evidence of success progressively receive more funding for expanded implementation. Taking a tiered approach focuses increased resources into cost-effective, high-impact interventions. This is particularly important in constrained budgetary environments. [Source: Ayotte K., et al, “[Moneyball for Government](http://moneyballforgov.com/)”, Disruption Books, November 2014]

A tiered-evidence framework builds the evidence base by replicating and further testing proven practices, validating promising approaches, adapting and testing interventions for new areas, and piloting innovative models.  To achieve this, a strong evaluation component is included. Evaluations not only assess the impact of the program, but also identify important learnings in terms of implementation, how different populations, locations, or methods affect outcomes, and can point to ways for fine-tuning the program operations. The evaluation component can look different across programs. It can require a local program evaluation as part of the grant award; require an evaluation carried out by independent third-party researchers, or a combination of both. Tiered-evidence grant programs’ definitions of “replication,” “adaptation,” or “strong evidence” vary, but all make a greater investment in program models that demonstrate a strong evidence of effectiveness based on program goals (Source: Youth.Gov, [“Investing In Evidence”](http://youth.gov/evidence-innovation/investing-evidence), webpage, December 2016). By limiting investment in untested programs and building the evidence base for these initiatives, programs can “fail fast” and learn from these investments with less financial risk. Larger investments to scale programs once evidence of impact has been established. This approach has the potential to limit risk and optimize tax payer investment in programs – producing better, cost-effective outcomes.

Tiered-evidence grant programs are just one application of a broader effort to infuse evidence and innovation into policy and program decision-making. It has demonstrated to be an effective tool, as evidenced by the experiences at the U.S. Agency for International Development (USAID)’s [Development Innovation Ventures](https://www.usaid.gov/div) (DIV) Program, the Department of Education’s [Investing in Innovation Fund](https://www2.ed.gov/programs/innovation/index.html?exp=0) (i3), and the Corporation for National and Community Service’s [Social Innovation Fund](https://www.nationalservice.gov/programs/social-innovation-fund) (SIF).

**Why:**

Tiered grantmaking presents a clear message to grantees and prospective applicants about the importance of building an evidence base. It allows for innovative ideas to percolate up from local practitioners or other program sectors, be tried out, scaled and tested, while advancing understanding about a particular policy issue. Tiered grantmaking benefits all funders - whether government or philanthropic - by allowing them to see how and whether different funded strategies create the desired impact. For agencies, it’s a valuable way of directing investments towards programs and projects that provide greater impact for each dollar invested.

**How:**

Agencies can structure grant competitions into different “tiers” - varying the amounts of funding available depending on where a program or intervention falls on the continuum of evidence of effectiveness. While some programs use only two tiers, many distribute their program along three tiers:

* *Highest tier*: For programs where the evidence base is “strong”, that is, they have been proven effective through multiple random assignments or strong quasi-experimental studies that can be replicated with fidelity. These *projects are deemed suitable for scaling* to serve more beneficiaries and warrant funding at the highest level because they have been shown to work.
* *Middle tier:* For programs with only a moderate evidence base, that is limited quasi-experimental studies or a single or small random assignment study. Moderate level funding is provided for *replication grants* designed to further test and validate effectiveness, assess implementation, and to address factors that may be limiting impact.
* *Lowest tier:* Where there is only preliminary evidence or a strong theory of action, funding is offered for *development* or *proof of concept* projects with an appropriate evaluation design to determine whether the project would merit further development or replication

(Source: [“A Strategy for American Innovation”](https://www.whitehouse.gov/sites/default/files/strategy_for_american_innovation_october_2015.pdf), National Economic Council and Office of Science and Technology Policy, 2015)

The goal of this approach is to identify evidence-based models that are replicable and bring them to scale. Grantees receive a base level of funding under the “proof of concept” (lowest tier) and additional funding may be awarded as evidence of effectiveness and impact is gathered. This framework enables agencies to direct more dollars towards successful and scalable programs, while encouraging experimentation. At the same time, this tiered approach can seed multiple potential interventions and encourage further testing and validation ([“Invest in What Works Fact Sheet: Evidence-Based Innovation Programs.” Results for America, October 2015](http://results4america.org/tools/invest-works-fact-sheet-federal-evidence-based-innovation-programs/)). Larger investments in ineffective programs are avoided, while the built-in mechanism for scaling up interventions that work also helps prevent the troubling problem of not investing in programs with proven high returns. (["Chapter 7: Evaluation as a Tool for Improving Federal Programs, "The Economic Report of the President, 2014.](https://www.whitehouse.gov/sites/default/files/docs/erp_2014_chapter_7.pdf))

**Implications**

Taking a tiered-evidence approach to grantmaking has implications for leaders, policymakers, and career civil service employees Problems across social, economic, and environmental domains are often at varying levels of scientific understanding. Engaging researchers in-house or in the broader scientific community through the tiered model builds a foundation for solving big problems using evidence. Senior leaders and career employees looking to introduce an evidence-driven approach to grantmaking should understand the existing state of knowledge, define and focus their efforts, and ensure that proposed approaches are empirically validated by experienced researchers using quantitative scientific methods.

**Case Study:**

[**The U.S. Agency for International Development’s Development Innovation Ventures (DIV) Program**](http://www.usaid.gov/div/)

[Source: Healy, A., Phone interview with Policy Design Lab, Washington DC, December 16th, 2016]

**Summary**:

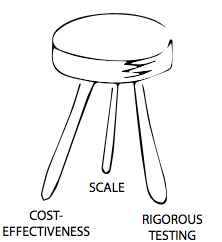
Since 2010, USAID’s tiered, evidence-based open innovation fund, [Development Innovation Ventures](http://www.usaid.gov/div) (DIV), has focused on piloting, testing, and scaling innovative solutions to some of the toughest challenges in global development. Taking a portfolio approach to its impact, which enables it to embrace failure, DIV invests small sums of funding in a variety of relatively unproven ideas and continues to support only those that demonstrate rigorous evidence of impact, cost-effectiveness, and potential to scale via the public and/or private sector. Through this model, DIV seeks to advance innovations that work while avoiding long-term investments in those that do not. Over six years, DIV has invested more than $90 million in nearly 170 innovations across all 10 sectors in which USAID operates and approximately 60% of the countries in which the Agency works. DIV is part of the [U.S. Global Development Lab](https://www.usaid.gov/globaldevlab) at USAID.

**Key accomplishments:**

* **Achieved significant portfolio-level impact:**  Modeled after a venture capital fund, DIV aims to make lots of smart “bets,” with the hopes that a small share of those achieves considerable impact that justifies the overall portfolio of investments. As such, DIV expects to make some grants that “fail” to deliver significant impact at scale and to measure its success at the portfolio level. At the portfolio level, DIV has had considerable success in backing innovations that have gone on to deliver results. Key analyses and results include:
  + **Social Rate of Return:**A social rate of return analysis accounts for full social benefits and full social costs of a development intervention. It therefore can capture the significant externalities (benefits to society that are not internalized by an individual or household that is the direct beneficiary of an intervention) that can be associated with development interventions, many of which link to the provision of public goods, such as a good education, healthcare, and clean water.  Social return is difficult to estimate in practice; however, in collaboration with Harvard development economics professor as well as DIV co-founder and Scientific Director, Michael Kremer, DIV has conducted a preliminary analysis anchored on several assumptions.Even an approximate, conservative calculation based on only a subset of three of the 43 early DIV projects suggests that the **current social rate of return across the entire portfolio of 43 investments made in in the first three years of DIV (2010–2012) is likely to be far in excess of the 15% target originally set by the USAID Administrator and DIV program leaders – potentially over 600%.** Even if we assume all other 40 investments made during this time period *failed*, the return from these three investments alone demonstrate the value of taking a variety of smaller bets with the aim of having a few particularly high-return investments.
  + **Retrospective Review of Completed Grants:**  Since the promulgation of the Global Development Lab’s official Results Framework in December 2015, DIV has retrospectively reviewed the majority of its completed grants - those with which it can speak with most certainty about their success. **DIV’s portfolio of completed grants has performed very well against this Framework, with 62% of completed grants having positive (causal) evidence of impact, reaching 9.3 million direct beneficiaries, and mobilizing 4.6:1 in follow-on funding.** **One of DIV’s closed grants has met the definition of “high-impact”[[1]](#footnote-1) innovation, while at least 11 others have met the definition of “high-potential”[[2]](#footnote-2) innovations** - in other words, they are on the path to becoming high-impact.
  + **Analysis of Reach:** Two renowned development economists, Michael Kremer (Harvard; also co-founded DIV and serves as its Scientific Director) and Esther Duflo (MIT), reviewed the first three years of DIV’s portfolio (2010-2012) with a focus on number of people reached by original and subsequently adapted versions of the innovation funded by DIV. They find that, across the 43 innovations supported in those initial years of the program, **DIV reached 24 million people at a cost per person of only $0.75, with five innovations reaching more than one million people and six additional innovations reaching over 100,000 people**.
  + **Cost-benefit analysis of energy portfolio**: The Lab has collaborated with USAID's Office of Economic Policy in the Bureau for Economic Growth, Education and Environment (E3/EP) on a series of cost-benefit analyses (CBAs) of DIV investments in off-grid energy companies to evaluate the financial and economic impact, in particular as it relates to household savings and income and economic growth. While this work is limited to DIV’s engagement in just one sector, energy has been a significant share of the DIV portfolio (18% of grants and 24% of dollars). Preliminary results from the East Africa portion of the analysis (four investments, representing $8.4 million in DIV funding) suggest DIV’s $8.4 million investment is creating over $15 million in present value to Rwanda, Tanzania, and Uganda. In other words, these investments created value for money in terms of an economic gain of $15 million – one of the most important metrics for evaluating a development investment as it signals the entire economy, or in this case, several economies, are benefiting from the DIV investments. As many of the secondary impacts of supporting these companies to test new innovations and distribution approaches have not been captured in this analysis due to the difficulty of identifying attribution, these estimates likely underestimate the real value of these investments.
* **Served as a model for other tiered, evidence-**based innovation funds: USAID was one of the first global development institutions to launch such a model. It has advised several bilaterals, multilaterals, and private funders on its model over the years. DIV also gave rise to the [Global Innovation Fund](http://www.globalinnovation.fund) – a non-profit innovation fund that invests (with grants, equity, and debt) in innovations with the potential to improve the lives and opportunities of millions of people in the developing world. USAID played a catalytic role in GIF’s launch: GIF’s design was originally inspired by the programmatic approach and experience of DIV at USAID, and USAID served as one of GIF’s founding funders, helping to crowd in other bilateral funders. The Fund is currently supported by DFID, USAID, Swedish SIDA, Omidyar Network, and Australian DFAT.
* **Boosting engagement with “non-traditional” actors and ideas:** As an open innovation fund, DIV is open to anyone with an idea. It has consistently demonstrated its value as a means by which to enhance the Agency’s engagement with “non-traditional” partners - everyone from local entrepreneurs to world-class researchers to high-growth start-ups to American small businesses trying to take their innovation global. Since DIV’s inception, approximately 70% of its nearly 8,000 applicants and over 50% of its portfolio organizations have been new to USAID. DIV has also consistently outperformed USAID’s 30% “Local Solutions” target, with approximately 40% of its portfolio consisting of local entrepreneurs. DIV has also been an important means for for-profit start-ups to engage with the Agency, consisting of nearly 40% of its portfolio. Likewise, DIV’s openness also applies to types of ideas. Certainly in any institution, some types of ideas can fall between the seams of sectors or issue areas. An open innovation fund, such as DIV, can enable an organization to support potentially high-impact, cost-effective innovations, even if they do not fit neatly within the organizational structure. For example, DIV has supported a number of road safety interventions that can be high impact and cost-effective from a public health perspective, but are not traditionally part of USAID’s health programming.

**How they did it**:

DIV selects, tests, and scales projects based on three main criteria (the three “legs of the stool”):



1. **Cost-effectiveness:** DIV seeks innovations that can deliver greater development impacts per dollar than standard practice.
2. **Rigorous testing:** DIV values the use of rigorous evaluation methods to determine whether an innovation significantly improves development outcomes, and holds organizations to a high bar of rigorous evidence or market viability in order to support scale-up.
3. **Pathways to Scale:** DIV expects those innovations with evidence of impact and cost-effectiveness to eventually scale up through private sector, public sector, or, in some cases, a combination of the two, in order to reach financial sustainability without long-term DIV support. An exit strategy with multiple institutional partners is key to the overall approach.

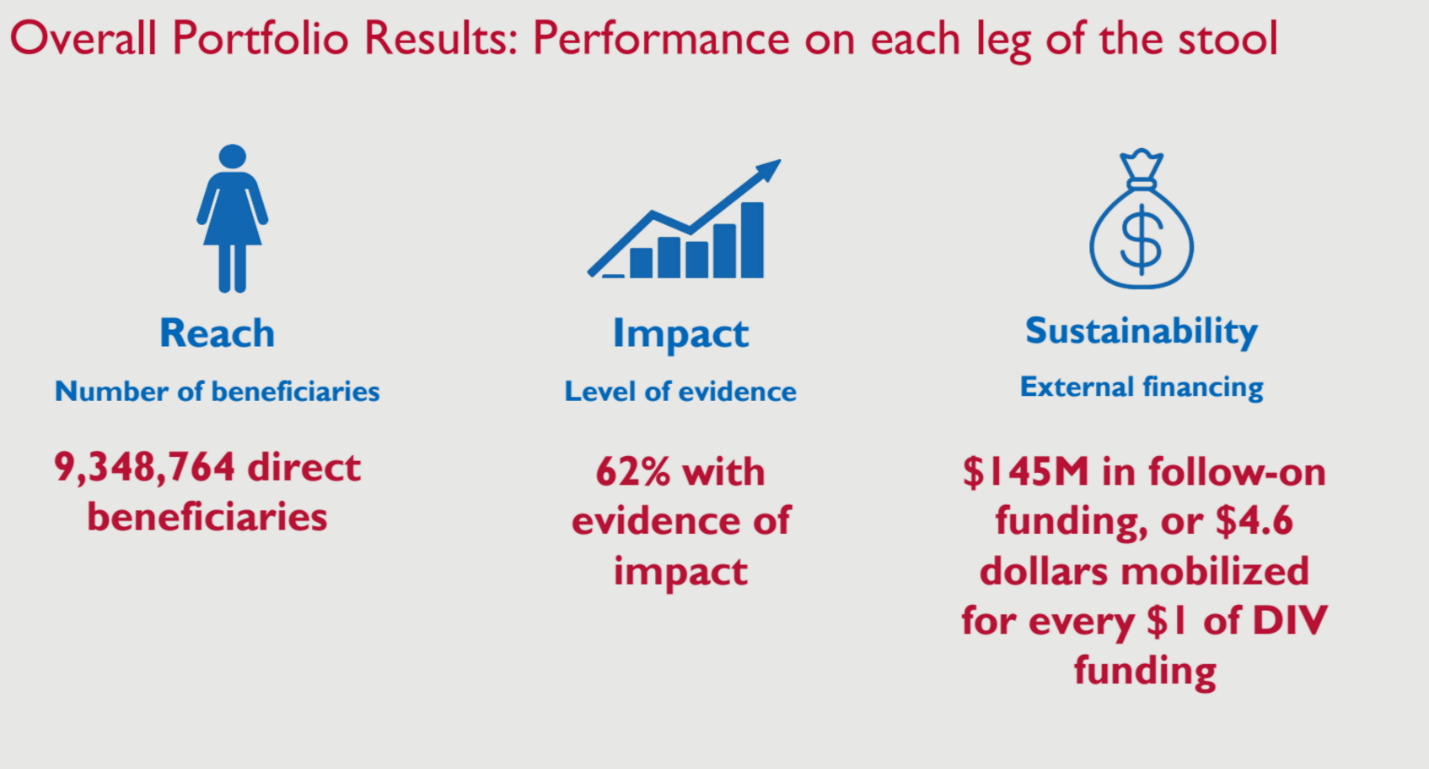
Based on these criteria, [DIV applies the three-tiered approach](https://www.usaid.gov/div) to grantmaking:

* **Stage 1 “Proof of Concept / Initial Testing**” **Grants** support the initial testing of an idea in order to demonstrate viability of the concept. Stage 1 grants range from $25,000 to $150,000 for up to three years.
* **Stage 2 “Testing and Positioning for Scale**” **Grants** support innovations that are ready to be measured for overall impact, sustainability, and possible scale. Stage 2 grants range from $150,000 to $1,500,000 for up to three years.
* **Stage 3 “Transitioning Proven Solutions to Scale**” **Grants** support proven ideas that are ready to be scaled, potentially across multiple countries. Stage 3 grants range from $1,500,000 to $15,000,000 for up to five years.

To operationalize the criteria across these three stages, DIV:

1. Runs a year-round competition to source breakthrough solutions, emphasizing cost effectiveness, rigorous testing, and pathways to scale
2. Applies a three-tiered staged financing model to invest in and test ideas in various stages of their growth. Applicants can apply to any stage, and must re-compete to advance to the next stage. Further funding is offered for promising interventions driven by successful, rigorous evidence.
3. Rigorously evaluates impact and cost-effectiveness. As interventions advance through the different tiers of funding, more evidence is needed. Using larger populations and impact evaluations to test the interventions, DIV looks for evidence at scale, while also maintaining a focus on cost and long-term financial sustainability of the intervention beyond DIV support.

Preliminary results from programs using this approach have been summarized in the following graphic:



[Source: Healy, A., Phone interview and personal communications with Policy Design Lab, Washington DC, December 16th, 2016]

**Key learning insights**

* **Tiered, evidence-based funding works to take smart risks to achieve development impact:** DIV has a long enough track record and large enough portfolio for it to be able to rigorously validate the tiered, evidence-based model. As the analyses it has conducted show, this venture capital-like approach works in generating development impact cost-effectively. The staged model acts as a risk mitigation strategy. Over 90% of organizations that DIV has funded once have reapplied for funding; to date, DIV has awarded a second grant to fewer than 20% of them.
* **A tiered, evidence-based fund can enhanced an Agency’s** engagement with rigorous impact evaluations:  DIV is one of a growing - though still small - community of funders that is very open to funding impact evaluations, helping to fill an important gap. To date, **nearly 40% of DIV’s grants have been for randomized controlled trials**, most of which have been with some of the top development economists in the world through, for example, [J-PAL](http://www.povertyactionlab.org) (MIT’s Poverty Action Lab), [Innovations for Poverty Action](http://www.poverty-action.org), and various affiliated universities. Through this experience, DIV has developed significant expertise and experience in impact evaluation and is seen as a leader in the Agency on rigorous methods. Furthermore, even in the grants that DIV awards for operations (versus evaluations), DIV’s use of rigorous evidence is substantial: For example, the four Stage 3 grants it has awarded to date all have either a rigorous randomized controlled trial underlying the innovation or a strong market test satisfied.
* **Thoughtfully-deployed grant funding can catalyze private investment:** DIV has become an Agency leader in structuring “traditional” grant funding to catalyze debt and equity in markets, such as off-grid energy. It combines extensive due diligence involving external partners with milestones tied to key performance indicators and follow-on funding to ensure that its patient capital motivates for-profit start-ups to seek the more sustainable forms of capital that can fuel their long-term growth.

**To Learn More:**

* **USAID DIV Websites:** [www.usaid.gov](http://www.usaid.gov) and [www.divportfolio.org](http://www.divportfolio.org)

**Contact:** Anne Healy, Lead, Development Innovation Ventures, USAID, [div@usaid.gov](file:///C:\Users\aramsden\Desktop\OSTP%20Reports\div@usaid.gov)

**Next Steps/Checklist:**

**Relevant Policies:**

**Additional Resources:**

1. A “high-impact solution” is defined as an innovation with: a level of evidence of at least 4 on the Lab’s 0-5 scale, at least one million direct beneficiaries or customers, and external financing of at least 70%. [↑](#footnote-ref-1)
2. A “high-potential solution” is defined as an innovation with: a level of evidence of at least 3 on the Lab’s 0-5 scale, at least 100,000 direct beneficiaries or customers, and external financing of at least 50%. [↑](#footnote-ref-2)